THE FEDERAL DIARY

Tax Reform Impact

By Mike Causey
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A pending proposal to eliminate the post-retirement, tax-free period on federal and public employe pensions would have a major impact on people who retire next year, according to the Federal Government Service Task Force.

The task force, a bipartisan pro-civil servant caucus, says the draft tax reform proposal by the House Ways and Means Committee could mean $10,000 in unexpected taxes over a three-year period for the typical federal worker. Its report was prepared by Reps. Michael D. Barnes (D-Md.) and Vic Fazio (D-Calif.) and Sen. Paul S. Sarbanes (D-Md.).

Also against the change is the Senior Executives Association, which warns of a possible retirement stampede this year. SEA, which represents many of the 9,000 top executives, says half its members are eligible to retire now and this could push them out of government.

Currently, workers who contribute to their pension plan—this includes many state and local workers as well as U.S. civil servants—don't pay federal taxes on their pensions until they have recovered their contributions. They have already paid taxes on contributions as part of their salaries. For the typical federal employe, that tax-free period is about 18 months, although it can run for as long as three years.

During that period, many federal workers cash in stocks or bonds or take other jobs. They are taxed at a lower rate because their pensions are not counted as income.

One portion of the president's tax reform plan, tentatively approved by the Democratic-controlled Ways and Means Committee, would eliminate that tax-free period. It would require persons who retire next year to begin paying taxes immediately on the government's contributions to their retirement, based on the actuarial assumption of their life expectancy, which, for someone retiring at age 62, is about 12 years. Rather than enjoy the benefits of the initial tax-free period, the task force says, the employe's tax would be based on the ratio of their contributions to the total annuity. In other words, they would be taxed immediately to take into account the prorated share of the government contribution to their pension.

Retirees would pay no more taxes over their lifetime, but they would be hit with an unexpected tax burden in their first year of retirement. The task force estimates that a typical worker (salary $28,000 to $30,000) would get an annuity of about $16,800.

But under the tax reform plan, those retirees would start paying taxes immediately on a portion of their pensions.

If the change, part of the giant tax reform bill, is approved, it would affect those retiring next year, not persons already retired.

Feds are cautioned not to jump into retirement—because of the uncertain status of the bill. But anyone of retirement age should follow the bill's progress and—if they want to avoid the new tax regulation—be ready to make a decision if the law is changed.

Special-Rate Employes

Rep. Mary Rose Oakar (D-Ohio) plans hearings early next year on the status of scientists, engineers and other government workers who are paid special, higher rates than others in the same grades.

The government has the authority to set special rates for employes in certain occupations to help it recruit and retain them. Most of the special-rate employes are engineers and scientists, but the higher pay scales are also in effect for some medical personnel.

Oakar has asked the Defense Department for an end-of-year report on any problems it has getting and keeping engineers and scientists. She has also asked the General Accounting Office to do a study of any salary problems in other agencies.